

Audit of Fees and Charges – Value for Money

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Audit Report Distribution

Client Lead:	Principal Accountant-Accountancy
Chief Officer:	Corporate Director of Finance and Resources Chief Executive
Others:	Financial Services Manager
Audit Committee:	The Audit Committee, which is due to be held on 24th September will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the value for money audit of Fees and Charges. This was an internal audit review included in the 2020/21 risk-based audit plan agreed by the Audit Committee on 30th July 2020.
- 1.2 The Corporate Charging Policy, which is part of the Strategic Financial Framework was approved by the Executive on 19 August 2019 and full Council on 10 September 2019. The policy sets out the City Council's approach for reviewing fees and charges and recognises that different approaches may be required for different services and that there are a variety of influences that need to be acknowledged in charge setting. The principle objectives for setting charges detailed within the policy are:
- Recover the cost of service provision;
 - Generate Surplus Income (where permitted);
 - Maintain existing service provision;
 - Fund service improvements or introduction of new service(s);
 - Promote access to service for low-income households;
 - Promote equity or fairness;
 - Achieve wider strategic policy objective (e.g. encouraging green policies).

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was Principal Accountant-Accountancy and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following scope areas:
- The City Council fails to achieve value for money from the process in place for setting fees and charges.
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix B** for definitions).

3.2 From the areas examined and tested as part of this audit review, we consider the current controls related to the setting of Fees and Charges provide **Reasonable assurance**.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix C**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (N/A)	-	-
3. Information - reliability and integrity of financial and operational information (N/A)		
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (see section 5.2)	-	2
Total Number of Recommendations	-	2

4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A.

4.3 Findings Summary (good practice / areas for improvement):

The Corporate Charging Policy is a specific element of the Medium-Term Financial Plan (MTFP) and it is evident that a review of the policy is undertaken during annual reviews of the host MTFP.

The policy is clear and easy to follow. It provides adequate direction to support a review of fees and charges that importantly allows for flexibility in the way reviews are completed and results are presented within reports to the Executive.

Annual fees and charges reports are prepared and presented to the Executive by individual Directorates in accordance with annual budget review requirements and the Corporate Charging Policy.

In accordance with outcomes of audit planning and scoping activity the following audit sample service areas were selected for audit testing:

- Car Parking
- Bereavement Services
- Pest Control

Subsequent review of available information and supporting records revealed that except for largely anecdotal information there is currently a lack of tangible evidence to demonstrate annual review activity within each Directorate (based on the audit sample) which fully considers the principles and value for money questions detailed within the Corporate Charging Policy.

Despite the inclusion of full content of the Corporate Charging Policy within each Directorate Annual Charges Review report presented to the Executive, other report content indicates the default approach is to only add an inflationary increase to current fees and charges. As a result, there is a lack of detail to demonstrate potential opportunities for increasing income/service provision have been identified and/or adequately assessed and as a result there is a risk that value for money will not be achieved.

Comment from the Corporate Director of Finance and Resources

A welcomed value for money review of the Council's fees and charges procedure. Although the Corporate Charging Policy (CCP) has already been agreed for the 2021/22 budget process, the recommendations can be used to support the detailed fees and charges reports presented to the Executive later this year. The formal CCP will be amended in line with the agreed recommendations.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** The Corporate Charging Policy is a specific element of the Medium-Term Financial Plan (MTFP) and it is evident that a review of the policy is undertaken during annual reviews of the host MTFP.
- 5.1.2** The policy is clear and easy to follow. It provides adequate direction to support a review of fees and charges that importantly allows for flexibility in the way reviews are completed and results are presented within reports to the Executive. However, opportunities for improvement exist through the inclusion of specific direction and guidance in relation to the Licensing annual report included within the policy to reduce the potential for confusion and policy assumptions.
- 5.1.3** The full content of the Corporate Charging Policy is included within each Directorate Charges Review report prepared and presented to the Executive in November 2019. However, it is suggested action should be taken to discourage the inclusion of the full policy text within annual charges review reports. Reference to the policy title and date should be quoted within reports in preference to including the complete policy text to reduce the potential for error and/or inconsistencies.
- 5.1.4** Records are available that demonstrate the approval of new or revised fees and charges by the Executive in accordance with Financial Procedure Rules.
- 5.1.5** Approved fees and charges fees and charges are communicated and applied consistently during service delivery.
- 5.1.6** There is a lack of a consistent approach to the provision of budget management support through the Finance Team and as a result records of support are not always created or retained. However, the audit recognises the lack of a formal consistent approach provides the opportunity for members of the finance team to tailor support accordingly for individual budget holders although it is suggested the creation of supporting records would add value and should be considered.
- 5.1.7** Information distributed by the Finance Team to support annual budget setting includes clear direction and guidance in relation to the need and responsibility for fees and charges review activity.
- 5.1.8** The introduction section of the Corporate Charging Policy for 2020/21 sets out the framework for review activity and details an assumption that income from fees will increase by 1% above inflation; this equates to 3% for 2020/21. The audit noted that the

reference to an assumption of a 3% increase within the introduction has the potential to influence and focus service reviews on the application of a basic 3% increase on existing fees and charges rather than completing a full and detailed review in accordance with the main content of the policy. It is suggested consideration should be given to amending the policy to ensure references to inflationary increases do not reduce the emphasis and need for full review activity.

5.2 Value – effectiveness and efficiency of operations and programmes

- 5.2.1 Annual reports are prepared and presented to the Executive to request approval for revised fees and charges for the forthcoming financial year. The reports generally provide details of current fees and charges and proposed revised charges following the addition of a 3% inflationary increase. However, and despite including full details of the Corporate Charging Policy within each report, there is a lack of tangible evidence to demonstrate detailed reviews of associated services have been completed and that the principles and specific 'Value for Money' questions detailed within the policy have been considered and answered.
- 5.2.2 The audit was informed that reliance is placed on informal review and benchmarking activity. However, outcomes of review and benchmarking activity are not usually recorded or retained.
- 5.2.3 The lack of tangible evidence of review activity and the lack of clear references to the Corporate Charging Policy principles within annual reports presented to the Executive results in an inability to gain full assurance that fees and charges have been reviewed in accordance with the principles set out in the Corporate Charging Policy and that Value for Money is being achieved.
- 5.2.4 In the absence of evidence of review and benchmarking activity completed by individual Directorates/Service Areas basic benchmarking exercises were completed as part of the audit. The results revealed the following:

Car parking – Internal audit comparison of Carlisle City Centre car parking charges against charges in privately owned/operated city centre car parks was completed. The comparison identifies that Carlisle City Council charges for 1-2 hours are largely comparable to privately owned/operated car parks in the city centre. However, charges for mid-range (3-4 hours) and all-day stays are lower, particularly 'All-day' charges and this indicates there is a potential opportunity for the City Council to increase charges but remain competitive.

Bereavement Services – Internal audit comparison of Bereavement Service fees and charges revealed Carlisle City Council publish fees and charges for a wide range of services that far exceed the number of services offered/published by other local authorities. Where similar services are offered variations in fees and charges are evident that would benefit from further specialist analysis to identify potential opportunities in relation to setting future fees and charges.

Pest Control – Internal audit comparison of pest control services against other local authorities revealed Carlisle City Council offer the lowest rates for domestic customers. Commercial charges are also competitive.

The activity identified Carlisle City Council offer reduced charges for ‘Senior Citizens’ but other local authorities offer reduced charges for all ‘Benefit recipients’ not just ‘Senior Citizens’. In addition, it is unclear if the Governance and Regulatory Services Directorate use of the term ‘Senior Citizens’ is intended to relate to the target group “*Persons over the age of 65*” in accordance with section 3 of the Corporate Charging Policy “*Targeting Concessions-Target Groups*”.

- 5.2.5** It is noted Carlisle City Council fees and charges for pest control services do not include reference to the other target groups as detailed within section 3 of the Corporate Charging Policy. There is also no clear reference to the target groups within the information prepared/published by the other two services included within the audit sample.

Recommendation 1 – Formal records of annual fees and charges review activity should be created and retained to demonstrate consideration of all elements and principles of the Corporate Charging Policy (Medium).

Recommendation 2 – Annual Fees and Charges reports prepared/presented in accordance the Corporate Charging Policy should be required to include content to demonstrate how all elements and principles of the policy have been considered/applied in each service area (Medium).

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 Formal records of annual fees and charges review activity should be created and retained to demonstrate consideration of all elements and principles of the Corporate Charging Policy.	M	lack of tangible evidence of review activity results in an inability to gain full assurance fees and charges have been reviewed in accordance with the principles set out in the Corporate Charging Policy and that Value for Money is being achieved.	Corporate Charging Policy will be amended to incorporate a requirement for records of review activity to be retained.	Corporate Director of Finance and Resources (supported by Principal Accountant)	31 July 2021
Recommendation 2 Annual Fees and Charges reports prepared/presented in accordance the Corporate Charging Policy should be required to include content to demonstrate how all elements and principles of the policy have been considered/applied in each service area.	M	Lack of clear references within Directorate annual charges review reports results in an inability to gain full assurance fees and charges have been reviewed in accordance with the principles set out in the Corporate Charging Policy and that Value for Money is being achieved.	Corporate Charging Policy will be amended to incorporate a requirement for annual fees/charges review reports to include content to demonstrate/confirm all policy elements and principles have been considered/applied.	Corporate Director of Finance and Resources (supported by Principal Accountant)	31 July 2021

Appendix B - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix C

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).